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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 27A July 19, 1991

JAPAN'S ECONOMIC RELATIONS WITH TAIWAN

Summary

Business relations between Japan and Taiwan have flourished in the 20 years since diplomatic ties were severed. Today Taiwan is Japan's fourth-largest trading partner, while Japan ranks second in Taiwan's two-way trade. But the growing importance of the two economies to each other also has created problems. Taiwan runs a significant deficit in its trade with Japan, even though it has a substantial surplus both overall and with the United States, its top trading partner.

Dealing with complicated issues like the bilateral trade imbalance is difficult in the absence of official relations between the two governments. Last year Taipei's mounting frustration with Tokyo's seeming reluctance to do anything about the widening gap in two-way trade led to a package of measures designed to force change. This move has put pressure on the business communities on both sides to find ways to reverse the growth of the bilateral trade imbalance.

Japanese companies have been the largest foreign direct investors in Taiwan since 1988. Plus, they are a primary source of technology for Taiwanese industry. The two business sectors also cooperate in investing in Southeast Asian markets. Although the political atmosphere sometimes complicates economic relations between Japan and Taiwan, the keen business interests of both partners could foster the creation of a strong regional market in East Asia.

Maintaining Relations

The Nationalist government in Taipei severed diplomatic relations with Tokyo following Japan's September 1972 official recognition of the People's Republic of China; that move acknowledged Beijing's claim to be the sole legitimate government of both mainland China and the island of Taiwan.* Months earlier the Taiwanese government had experienced a shock when then President Nixon visited mainland China and set a course that led to the establishment of diplomatic relations between the United States and the PRC at the beginning of 1979. The communique issued after Mr. Nixon's February 1972 visit recognized Taiwan as a part of China but said the Chinese themselves should settle peacefully the questions of how to address the Taiwan issue.

With official ties broken, Tokyo and Taipei set up parallel semigovernmental organizations in December 1972 -- the Chinese/Japanese Interchange Association on the Japanese side and the Association of East Asian Relations on the Taiwanese side -- to serve as channels for informal relations and to take over some services no longer provided by the two governments, such as immigration. (Similarly, Washington's affairs are handled through the American Institute in Taiwan, while Taipei maintains ties through the Coordinating Council for North American Affairs.) In Japan's case, retired ambassadors have served as the head of the Taipei office of the Chinese/Japanese Interchange Association; Taipei has assigned high-ranking government officials or party leaders as the chief representative of the Tokyo office of the Association of East Asian Relations. The two organizations hold annual meetings to exchange information, discuss problems in trade or other parts of the Japan-Taiwan economic relationship and, if necessary, convey requests to and from their governments.

Although Tokyo and Taipei have channels of communication, it sometimes is difficult for them to resolve bilateral economic problems, such as those involving trade barriers, protection of intellectual property rights and investment regulations. Unlike trade talks undertaken by governments, the meetings between the pair of semigovernmental organizations do not provide authoritative grounds to settle economic disputes. Moreover, except for membership in the Asian Development Bank, Taiwan is not a participant in or has not been allowed to join the principal international organizations or forums, such as the United Nations, the International Monetary Fund, the World Bank and the General Agreement on Tariffs and Trade. This means that Tokyo and Taipei do not have the chance to communicate with each other in a multilateral setting.

The absence of government-to-government relations also impedes financial services between Japan and Taiwan. Since Tokyo cut off foreign aid to Taiwan and the Export-Import Bank of Japan stopped providing export credits and other

*Beijing does not take Japan's one-China policy for granted. It actively monitors Tokyo's attention toward Taipei, most recently opposing any official or unofficial invitation to Taiwan's president to visit Japan. An invitation would indicate, a Chinese Embassy representative in Tokyo said, that Tokyo had decided to adopt a "two-Chinas" or a "one China, one Taiwan" policy.

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

forms of financing, Japanese companies have had to tap the commercial banking system to finance trade with Taiwan or investment there. That dependence has not curtailed the expansion of business with Taiwan since transactions there fall into the low-risk category. But Japanese traders and investors potentially face some financial complications because only a single branch of a Japanese bank, set up before 1972, is in operation in Taiwan. Other banks interested in opening offices in Taiwan have run into opposition from the Japanese government, which is concerned about the impact of such a move on relations with Beijing.

Air services indicate some other drawbacks to the absence of diplomatic relations between Japan and Taiwan. While Beijing's national flag carrier serves the high-traffic Narita and Osaka airports, Taipei's China Airlines is limited to the Haneda and Fukuoka airports. For its part, Japan Airlines, which provides service to mainland China, set up a subsidiary, Japan Asia Airways, to fly from Narita and Osaka to Taiwan.

Taiwan's Economic Growth and Its Trade Structure

Despite the lack of official relations between Tokyo and Taipei and the complications this adds to the bilateral economic relationship, Japan's business ties to Taiwan have proliferated, especially in recent years. For example, from 1985 until they leveled off in 1990 both exports to Taiwan and imports from there expanded at a much faster rate than Japan's overall trade (see Table 1). By last year Taiwan was Japan's fourth-biggest market and its ninth-largest supplier (see Table 2).

Table 1: Japan's Trade with Taiwan, 1970-90

(in millions of dollars; exports f.o.b., imports c.i.f.)

Year	Exports	Imports	Balance
1970	$700	$250	$450
1975	1,821	811	1,010
1980	5,146	2,293	2,852
1981	5,405	2,523	2,882
1982	4,255	2,443	1,812
1983	5,086	2,622	2,463
1984	5,986	3,204	2,782
1985	5,026	3,386	1,640
1986	7,852	4,691	3,161
1987	11,346	7,128	4,218
1988	14,354	8,744	5,611
1989	15,421	8,979	6,442
1990	15,430	8,496	6,933

Source: Japan Tariff Association

The fast-paced increase in Japan's trade with Taiwan in the second half of the 1980s mainly paralleled the rapid expansion of the Taiwanese economy. Real economic growth surpassed 12 percent in both 1986 and 1987. Although the

Table 2: Japan's Major Trading Partners, 1990

(in millions of dollars; exports f.o.b., imports c.i.f.)

Exports	Amount	Share	Imports	Amount	Share
United States	$90,322	31.5%	United States	$52,369	22.3%
West Germany	17,782	6.2	Indonesia	12,721	5.4
South Korea	17,457	6.1	Australia	12,369	5.3
Taiwan	15,430	5.4	China	12,054	5.1
Hong Kong	13,072	4.6	South Korea	11,707	5.0
United Kingdom	10,786	3.8	West Germany	11,487	4.9
Singapore	10,708	3.7	Saudi Arabia	10,462	4.5
Thailand	9,126	3.2	Arab Emirates	9,085	3.9
Australia	6,900	2.4	Taiwan	8,496	3.6
Canada	6,727	2.3	Canada	8,392	3.6
Total Exports	286,948	100.0	Total Imports	234,799	100.0

Source: Japan Tariff Association

rise in inflation-adjusted gross national product slowed to 7.8 percent in 1988 and then to 7.2 percent the next year before dropping to 5.3 percent in 1990, last year's growth still exceeded that of most industrialized countries. Reflecting this strong performance as well as the roughly 50 percent appreciation of Taiwan's currency against the dollar in the five years following the Plaza Accord, Taiwanese per capita income jumped to $7,990 in 1990 from $3,297 in 1985. Among Asian economies that figure put Taiwan fifth after Japan, Brunei, Singapore and Hong Kong, and it was more than 20 times as large as the PRC's per capita income. Officials in Taipei expect per capita income to reach $14,000 by 1996; such a figure would put Taiwan in the ranks of industrialized countries.

Exports have fueled Taiwan's rapid economic growth. The share of exports in gross national product hit 48 percent in 1989. That number not only was far above the comparable figures of 9.7 percent for Japan and 7 percent for the United States but made Taiwan's export dependency greater than Europe's. The economy's heavy dependence on exports stems partly from the relatively small size of the domestic market (20 million people). It also reflects Taiwan's international political status, which prevents Taipei from getting foreign official credits to pay for imports. The economy's success in exporting has resulted in a string of fairly sizable trade surpluses and foreign currency reserves amounting to more than $70 billion as of December 1990 -- a figure that puts Taiwan in Japan's league.

Taiwan's main export market is the United States. Although attempts to diversify overseas shipments by putting more emphasis on sales to Europe, Southeast Asia and China (through Hong Kong) dropped the U.S. share to 32 percent in 1990 from nearly 50 percent in 1984, this country still is Taiwan's most important market. Japan ranked third last year, right behind Hong Kong (see Table 3).

Taiwan mainly buys production equipment, parts and components and manufactured industrial supplies from Japan (see Table 4), its largest source of

Table 3: Taiwan's Major Trading Partners, 1990

(in millions of dollars; exports f.o.b., imports c.i.f.)

Exports	Amount	Share	Imports	Amount	Share
United States	$21,746	32.4%	Japan	$16,071	29.4%
Hong Kong	8,557	12.7	United States	12,612	23.0
Japan	8,346	12.4	West Germany	2,668	4.9
West Germany	3,181	4.7	Australia	1,660	3.0
Singapore	2,204	3.3	Saudi Arabia	1,539	2.8
United Kingdom	1,979	2.9	Hong Kong	1,446	2.6
Netherlands	1,856	2.8	Singapore	1,406	2.6
Canada	1,559	2.3	South Korea	1,344	2.5
Thailand	1,424	2.1	Switzerland	1,201	2.2
Australia	1,279	1.9	United Kingdom	1,154	2.1
Total Exports	67,214	100.0	Total Imports	54,719	100.0

Source: Taiwanese Government

imports, and the United States, its number-two supplier. These imports are used to manufacture the consumer goods and the low-technology capital goods that make up a substantial share of Taiwan's exports. Since the network of domestic parts producers is not well-developed, Taiwanese manufacturers rely on foreign, especially Japanese, suppliers for these inputs. While only 30 percent or so of Taiwan's total imports come from Japan, its manufacturing sector is heavily dependent on Japanese suppliers for certain types of parts, machinery and industrial materials.

Trade Imbalance with Japan

Although Taiwan runs a significant surplus in its overall trade it buys far more from Japan than it sells to that country (see Table 5). Moreover, the gap has widened almost in lockstep with the expansion of Taiwan's worldwide exports. In 1990 the bilateral imbalance reached an all-time high of $7.7 billion based on Taiwanese statistics and $6.9 billion according to Japanese data. Until the late 1980s trade policymakers in Taipei generally did not consider the rising deficit with Japan to be a major problem, but the red ink in the Taiwan-Japan trade account has become a growing source of bilateral friction in recent years, in part because of developments in Taiwan's trade with the United States.

Taiwan's generally expanding deficit with Japan in the 1980s was accompanied by a growing surplus with the United States. By 1987 U.S.-bound exports topped purchases of American-made products by $16 billion. The corresponding deficit in the U.S. trade account made Taiwan second only to Japan as a contributor to 198[illegible]'s record overall trade deficit. That ranking gave fresh momentum to Washington's long-running campaign to get Taiwan to boost imports from the United States. Taipei responded by dispatching import-promotion missions here and dismantling additional trade barriers. New export markets also were sought to trim Taiwanese dependence on U.S. sales. Together, these measures helped cut Taiwan's surplus with the United States to $9.1 billion in 1990.

Table 4: Commodity Composition of Japan's Trade with Taiwan, 1990

(in millions of dollars; exports f.o.b., imports c.i.f.)

Exports	Amount	Share
Food	$288	1.9%
Textiles and Apparel	516	3.3
Chemicals	1,848	12.0
Plastic Materials	464	3.0
Nonmetallic Mineral Products	306	2.0
Metals and Fabricated Metal Products	1,836	11.9
Steel	1,170	7.6
Nonferrous Metals	381	2.5
Metal Products	286	1.9
Machinery and Equipment	9,057	58.7
Nonelectric Power Generating Machinery	333	2.2
Computers and Other Office Machines	615	4.0
Metalworking Machinery	255	1.6
Textile Machinery	213	1.4
Electric Power Generating Machinery	269	1.7
Television Sets	154	1.0
Electronic Tubes and Semiconductors	1,580	10.2
Motor Vehicles	312	2.0
Scientific and Medical Equipment	335	2.2
Other	1,580	10.2
Total Exports	15,430	100.0

Imports	Amount	Share
Food	$2,165	25.5%
Meat	709	8.3
Fish	972	11.4
Textile Fibers	53	0.6
Metal Ores and Scrap	95	1.1
Other Raw Materials	271	3.2
Logs and Lumber	97	1.1
Mineral Fuels	11	0.1
Chemicals	334	3.9
Machinery and Equipment	2,038	24.0
Computers and Other Office Machines	204	2.4
Scientific and Medical Equipment	227	2.6
Other	3,529	41.5
Steel	315	3.7
Nonferrous Metals	173	2.0
Textiles and Apparel	737	8.7
Toys and Games	97	1.1
Total Imports	8,496	100.0

Source: Japan Tariff Association

Table 5: Taiwan's Trade Balance with Major Trading Partners, 1985-90

(in billions of dollars)

	1985	1986	1987	1988	1989	1990
Japan	$-2.1	$-3.7	$-4.9	$-6.1	$-7.0	$-7.7
United States	10.0	13.6	16.0	10.4	12.0	9.1
European Community	0.5	1.5	2.7	1.9	2.6	2.7
Hong Kong	2.2	2.5	3.4	3.7	4.8	7.1
Asean*	0.4	0.6	0.7	1.2	2.4	2.8
Overall	10.6	15.6	19.0	10.9	13.9	12.5

*Brunei, Indonesia, Malaysia, the Philippines, Thailand and Singapore.

Source: Taiwanese Government

As pressure from Washington intensified in the late 1980s for action on the trade front, government officials in Taipei began to voice increasing concern about Taiwan's widening deficit with Japan. They readily admitted that Taiwan's expanding world exports were a major cause of the bigger imbalance because this growth pulled in more imports from Japan, but policymakers in Taipei also faulted Japan for not buying more Taiwanese-made products.

To help boost demand in Japan for imports from Taiwan, the Ministry of Economic Affairs' trade promotion arm, the China External Trade Development Council, initiated a variety of activities. These included staging product exhibits in Japan, sending missions there to contact corporate purchasing offices and local chambers of commerce, and inviting Japanese buyers to visit Taiwan. In early 1990 President Lee Teng-hui asked his economic affairs minister to lead a high-level export mission to Japan. Apparently not sharing Taipei's concerns about the mounting bilateral trade imbalance, Tokyo responded coolly to this initiative. Referring to its policy of no contacts between high-level officials of the two governments, Tokyo refused to issue a visa for the minister.

This decision added to the strains in the Taiwan-Japan economic relationship. So did a number of politically linked developments last year. Anti-Japanese feelings arose in Taiwan when some Japanese right-wing activists built a lighthouse on one of the Senkaku Islands in the East China Sea, a site over which both Taipei and Beijing have made territorial claims. Moreover, in line with Tokyo's new policy of monitoring more closely the entry into Japan of people suspected of being illegal foreign workers, the Ministry of Justice began to require visas of Taiwanese, including people in Japan just to change planes. Previous regulations had allowed Taiwanese to stay in Japan up to 72 hours without a visa; that allowed travelers arriving at Haneda airport to make connections with international flights departing from Narita. As it turned out, the visa policy change coincided with Taipei's decision to allow Taiwanese residents to visit family members on mainland China; thus, it affected the growing number of Taiwanese using Haneda and Narita airports on their way to and from China.

Taipei Takes Action

Irritated by Tokyo's lack of movement in dealing with the expanding bilateral trade imbalance, Taipei announced a series of measures in June 1990 designed to tackle the problem both directly and indirectly. Among other moves the government urged Taiwanese companies to shift foreign sourcing from Japan to other countries; called on Japanese firms manufacturing in Taiwan to export their output to Japan; tightened customs-clearance and inspection procedures for goods coming in from Japan; conditioned new Japanese investment in the manufacturing sector on technology transfers and/or export requirements; and made it more difficult for Japanese business representatives to get visas. Taipei also initiated a review of its trade policy toward Japan with an eye toward imposing unilateral restrictions on Japanese-supplied imports.

By September the Taiwanese government had identified 282 specific products imported mainly from Japan (see Table 6) that it wanted local manufacturers to buy from other countries. This past January Taipei requested Japanese-affiliated automotive manufacturers operating in Taiwan to draft plans to increase exports to Japan to 10 percent of their total output within three years and to expand their local content. Taipei also asked Japanese trading houses to submit three-year sales projections that included commitments to expand exports of Taiwanese products to Japan.

Table 6: Taiwan's Dependency on Imports from Japan, 1989*

(im millions of dollars)

	Total Imports	Imports from Japan	Dependency Ratio
Machinery and Equipment (62 items)	$1,059	$969	91.5%
Parts and Components (103 items)	2,564	2,286	89.2
Industrial Materials (73 items)	1,046	947	90.6
Consumer Goods (44 items)	492	449	91.4
Total	52,248	16,027	30.7

*Products that Taiwanese companies are urged to buy from non-Japanese sources.

Source: Taiwanese Government

Japanese government officials have noted that some of the measures outlined by Taipei appear to violate international trade rules as represented by the General Agreement on Tariffs and Trade. But since Taiwan is not a GATT member and the diplomatic channels are missing through which Tokyo normally would protest the punitive trade actions of another government, Tokyo has no formal way to pressure Taipei to rescind its package of anti-Japan measures.

Taiwanese officials long have complained about the lack of a formal framework for resolving trade disputes with Japan -- an absence magnified in their view by the multiple channels available to Tokyo to work out problems with Washington or Seoul. They point out that South Korea, which also runs a sizable deficit in trade with Japan, has had several high-level opportunities over the last year or so to press Japan for change, including two meetings between President Roh Tae Woo and Prime Minister Toshiki Kaifu and a South Korea-Japan ministerial-level meeting last November. Some Taiwanese officials have suggested that Taipei should try to raise the bilateral trade imbalance issue at late July talks between government ministers of Taiwan and South Korea and then ask Seoul to push Tokyo to increase imports from both South Korea and Taiwan.

Private-Sector Initiatives

Although formal government ties are nonexistent, the business communities of Japan and Taiwan have held annual meetings since 1973. The deterioration of the business atmosphere formed the common concern of Japanese and Taiwanese private-sector representatives at their December 1990 conference. Both groups fully understood that Taipei's Japan-targeted policies not only could hurt Japanese exporters and investors but eventually could harm Taiwanese manufacturers because of their heavy dependence on equipment and parts supplied from Japan.

The business communities of both Japan and Taiwan agreed that the bilateral trade imbalance had to be addressed from a realistic, long-term perspective. In response to Taiwanese private-sector requests, more than 150 Japanese businessmen participated in a trade mission to Taiwan in May. In addition to organizing meetings in three major Taiwanese cities, the mission held a series of seminars addressing the willingness of Japan's business community to cooperate in improving Taiwanese competitiveness through technology transfers and the dissemination of market information. Representatives of the Ministry of International Trade and Industry as well as officials from the semigovernmental Japan External Trade Organization and the Manufactured Imports Promotion Organization joined the mission as advisers.

Taipei officials expressed a hope that corporate Japan would help transform the Taiwanese economy from export dependent to domestic demand-led. A six-year, $300 billion economic development plan launched this year by Taipei is designed to foster more balanced economic growth. Much of the money will be used to improve Taiwan's economic infrastructure, but building up the parts supplier base also is a major objective. Japanese companies figure prominently in this part of the plan since their technical and financial assistance will be needed. That involvement, the government hopes, will lead to greater parts exports to Japan. Even if it does not, the substitution of locally made parts for imported products should reduce the Japan-Taiwan trade imbalance.

Some analysts have interpreted the May business mission as a Japanese effort to save face. These observers saw Taipei's June 1990 actions as a warning signal to draw Tokyo's attention to the problem of the bilateral trade imbalance. But, they surmised, once Japan's corporate sector demonstrated its interest in tackling trade problems between the two economies, Taipei sooner or later would end its Japan-targeted measures.

Private-Sector Investment Cooperation

Both the new development plan and the trade mission highlighted the central role of foreign technical assistance in the structural transformation of the Taiwanese economy. Japanese companies already are providing help in this area through their direct investments in Taiwan. Pushed by the yen's post-1985 appreciation and the growing labor shortage at home and pulled by Taiwan's rapid economic growth, the amount of Japanese money invested in Taiwan jumped in the second half of the 1980s. Last year, according to Taiwanese statistics, Japanese investment totaled $826.8 million, up 29.1 percent from 1989's figure and equivalent to 35.9 percent of overall foreign investment (see Table 7). Japan has been the top investor in Taiwan since 1988. By the end of 1990 its cumulative total exceeded that of the United States. Of last year's addition, $513 million -- 62 percent -- went into the manufacturing sector, particularly electronics ($172 million), metals and fabricated metal products ($110 million) and chemicals ($87 million).

Table 7: Foreign Direct Investment in Taiwan, 1980-90

(in millions of dollars)

	Value				Share		
Year	Total	Japan	United States	Overseas Chinese	Japan	United States	Overseas Chinese
1980	$465.9	$86.0	$110.0	$222.5	18.5%	23.6%	47.8%
1985	702.4	145.2	332.7	41.7	20.7	47.4	5.9
1986	770.3	253.5	138.4	64.8	32.9	18.0	8.4
1987	1,418.7	399.2	414.0	195.7	28.1	29.2	13.8
1988	1,182.5	431.8	134.7	121.3	36.5	11.4	10.3
1989	2,418.2	640.5	343.0	177.2	26.5	14.2	7.3
1990	2,301.7	826.8	540.3	220.1	35.9	23.5	9.6
Cumulative 1952-90	13,251.6	3,682.4	3,291.0	1,953.7	27.8	24.8	14.7

Source: Taiwanese Government

Taiwanese firms also concluded 105 technical assistance contracts with Japanese companies in 1990, a number exceeding the combined total of contracts signed with American firms (50) and European businesses (30). Much of the recent growth in Japanese technical assistance has been in the electronics and the metalworking industries. Among the reasons many Taiwanese cite for their preference for Japanese affiliations are a concern with high quality, appropriate technology, marketing prowess and after-sale service.

Taiwan's rapidly rising labor costs increasingly detract from its desirability as a site for textiles and other labor-intensive products. Nevertheless, other factors, such as geographical proximity to Japan, relatively low inflation rates, an increasingly developed industrial infrastructure and a large pool of skilled labor, still make Taiwan an attractive investment place for Japanese manufacturers, especially producers of medium-technology products.

A major concern of Japanese investors and importers selecting overseas business partners is a firm's ability to produce a quality product at a competitive price and deliver it on schedule. Although some Japanese companies still complain about the quality of Taiwanese products, others acknowledge that improvements have occurred. The rising level of investment in Taiwan's manufacturing sector and technical assistance to local suppliers implies that Japanese producers see Taiwanese companies as potentially good business partners.

Taiwanese companies increasingly are trying to become part of Japanese manufacturers' supplier networks. Their goal is to collaborate with small and midsized Japanese firms supplying big manufacturers in Japan. Although parts shipments from Taiwan to Japan still are fairly limited, a number of Taiwanese companies work closely with Japanese firms elsewhere in Southeast Asia. For example, Taiwanese parts makers with plants in Philippine or Indonesian industrial estates often supply Japanese manufacturers with operations in the same complexes. Taiwanese investors also fill a gap in the supply chain of less-developed Southeast Asian countries by helping provide parts to Japanese firms manufacturing there.

From the perspective of Japanese industry, ties with Taiwanese firms offer the prospect of expanded business opportunities in Southeast Asia where Taiwanese companies traditionally have had strong relations with overseas Chinese. In addition, since political rapprochement between Beijing and Taipei remains a possibility and because many Taiwanese are interested in doing business with mainland China, Japanese businessmen and their Taiwanese counterparts see each other as potential partners on the mainland. Taiwanese firms view their success in forming supplier relationships with Japanese firms in Southeast Asia as a key to improving international competitiveness and, in turn, increasing direct shipments to Japan.

One indication of the prospects for expanded collaboration between Japanese and Taiwanese companies in Southeast Asia is the recent jump in Taiwanese direct investment in Thailand, Malaysia, the Philippines and other countries belonging to the Association of Southeast Asia Nations. Last year Taiwanese investment in Asean countries for the first time exceeded the amount of money going into the United States (see Table 8).

Table 8: Taiwanese Foreign Direct Investment, 1984-90

(in millions of dollars)

	Value						Share	
		United	Asean				United	
Year	Total	States	Total	Thailand	Malaysia	Philippines	States	Asean
1984	$39.3	$30.5	$6.5	$0.2	$1.2	n.a.	77.8%	16.6%
1985	41.3	35.7	3.9	2.6	n.a.	n.a.	86.4	9.3
1986	56.9	46.0	8.1	5.8	n.a.	$0.1	80.8	14.2
1987	102.8	70.1	16.1	5.4	5.8	2.6	68.2	15.6
1988	218.7	123.4	59.1	11.9	2.7	36.2	56.4	27.0
1989	931.0	508.7	210.2	51.6	158.6	66.3	54.6	22.6
1990	1,552.2	428.7	567.3	149.4	184.9	123.6	27.6	36.6

Source: Taiwanese Government

Outlook

With Taiwan playing an increasingly important role in the world economy, Taipei is anxious to participate in international economic organizations. In January 1990 Taiwan applied for GATT membership. It also has expressed interest in joining the Asian Pacific Economic Cooperation group, made up of the Asean countries, South Korea, the United States, Japan, Canada, Australia and New Zealand (see JEI Report No. 32B, August 17, 1990). One advantage of Taiwan joining GATT is that it would give Tokyo and Taipei a forum for discussing bilateral economic problems. Beijing, however, also is seeking GATT membership as well as participation in APEC, and it is vehemently opposed to Taiwan receiving membership in any international organization. With this position in mind, Tokyo has not offered support for Taipei's attempts to join GATT.

Some observers argue, however, that as the post-Cold War political order takes hold in East Asia, Taipei and Beijing will be forced to review their relationship; such a move could result in both Taipei and Beijing gaining entry to international organizations. Furthermore, Great Britain's accord to return Hong Kong to China in 1997 could have a sweeping impact on relations since most economic exchanges between Taiwan and mainland China currently are carried out through Hong Kong. Analysts expect that as 1997 nears the governments on both sides of the Taiwan Strait will look for ways to make bilateral economic relations more transparent.

Recent moves by Seoul, which maintains diplomatic ties with Taipei but also seeks official relations with Beijing, could facilitate this development. As the host country of the next APEC meeting, South Korea has expressed an interest in inviting representatives from Beijing, Taipei and Hong Kong to participate in the talks. Tokyo has supported Seoul's initiative, saying it welcomed APEC membership for all three as long as each agreed to the others' simultaneous entry. If Taipei and Beijing agree to each other joining APEC and, possibly, GATT, the business environment in East Asia certainly would improve. That would set the stage for the expansion of regional economic cooperation.

For further information, contact Tadashi Saito.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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